

**SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS**

TANGENT TRANSPORTATION COMPANY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

State of South Carolina



Office of the State Auditor

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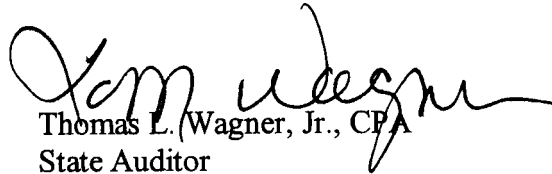
August 25, 2003

The Honorable Mark Sanford, Governor
and
Mr. Robert A. Faith, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the Tangent Transportation Company, a division of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2002, was issued by Wilkes & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
TANGENT TRANSPORTATION COMPANY

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INDEPENDENT AUDITOR'S REPORT

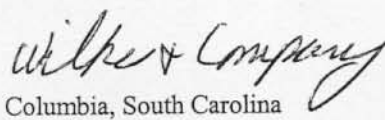
Mr. Thomas L. Wagner, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the accompanying financial statements of the Tangent Transportation Company, a division of the South Carolina Department of Commerce - Division of Public Railways, as of December 31, 2002, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Tangent Transportation Company are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Tangent Transportation Company, enterprise fund of the State. These financial statements do not include other funds or enterprises of the Division of Public Railways, Department of Commerce, or the State or any component units of the State. These financial statements do not purport to, and do not, present fairly the financial position of the State of South Carolina primary government or financial reporting entity of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2002 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Tangent Transportation Company as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with auditing principles generally accepted in the United States of America.


Columbia, South Carolina

May 8, 2003

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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STATEMENT OF FUND NET ASSETS – ENTERPRISE FUND
DECEMBER 31, 2002

ASSETS

Current Assets:

Cash and cash equivalents	\$ 279,900
Accounts receivable	92,883
Account receivable – Ports Authority	142,600
Accounts receivable from other divisions	25,720
Interest receivable	276
Inventories	8,999
Prepayments	<u>8,146</u>

Total Current Assets	<u>558,524</u>
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Property, Plant, and Equipment, Net of Accumulated

Depreciation of \$110,522	<u>737,859</u>
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Total Assets	<u>1,296,383</u>
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LIABILITIES

Current Liabilities:

Accounts payable to other divisions	96,384
Accounts payable - other	55,160
Payroll taxes withheld and accrued employee benefits	5,221
Accrued annual leave and related benefits	<u>40,781</u>

Total Current Liabilities	<u>197,546</u>
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NET ASSETS

:

Invested in Capital Assets	737,859
Restricted for Working Capital Reserve	50,000
Unrestricted	<u>310,978</u>

Total Net Assets	<u>\$ 1,098,837</u>
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THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

Operating Revenues:		
Freight charges	\$	108,368
Contractual services - other divisions		628,777
Contractual services - outside parties		<u>209,633</u>
Total Operating Revenues		<u>946,778</u>
Operating Expenses:		
Railway Operating Expenses:		
Maintenance of Way and Structures:		
Supervision		42,215
Depreciation		540
Other maintenance of way expenses		<u>634,437</u>
Total Maintenance of Way and Structures		<u>677,192</u>
Transportation:		
Yard employees		60,031
Depreciation		4,213
Other transportation expenses		<u>29,746</u>
Total Transportation		<u>93,990</u>
General:		
Administration		70,562
Insurance		21,229
Management Fees		<u>90,000</u>
Total General		<u>181,791</u>
Total Railway Operating Expenses		<u>952,973</u>

THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

Other General Operating Expenses:	
Rent expense for leased equipment	24,000
Hire of freight cars	<u>2,822</u>
Total Other General Operating Expenses	<u>26,822</u>
Total Operating Expenses	<u>979,795</u>
Operating Loss	<u>(33,017)</u>
Nonoperating Revenues (Expenses):	
Interest income	3,219
Deficit reimbursement – Ports Authority	142,600
Other income	<u>13,610</u>
Total Nonoperating Revenues (Expenses)	<u>159,429</u>
Income before Transfer	126,412
Transfer to PUC-PTR	<u>(102,293)</u>
Net Income	24,119
Net Assets:	
Beginning of year	<u>1,074,718</u>
End of year	<u>\$ 1,098,837</u>

THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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STATEMENT OF CASH FLOWS – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

Cash Flows From Operating Activities:

Cash received from customers, net	\$ 1,035,523
Cash payments to suppliers and employees	(1,003,512)
Cash received for other income	<u>13,610</u>
Net Cash Provided by Operating Activities	<u>45,621</u>

Cash Flows From Investing Activities:

Interest income	<u>2,943</u>
Net Cash Provided by Investing Activities	<u>2,943</u>

Net Increase in Cash and Cash Equivalents 48,564

Cash and Cash Equivalents, Beginning of Year 231,336

Cash and Cash Equivalents, End of Year \$ 279,900

Reconciliation of Operating Loss to Net Cash Used by

Operating Activities:

Operating loss	\$ (33,017)
Adjustments to reconcile operating loss	
to net cash provided by operating activities:	
Depreciation	4,753
Other nonoperating revenues	13,610
(Increase) decrease in assets:	
Accounts receivable	(71,625)
Accounts receivable from other divisions	160,370
Prepayments	(6,039)
Increase (decrease) in liabilities:	
Accounts payable to other divisions	28,998
Accounts payable, other	(49,619)
Payroll taxes withheld and accrued employee benefits	260
Accrued annual leave and benefits	<u>(2,070)</u>
Net Cash Provided by Operating Activities	<u>\$ 45,621</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - REPORTING ENTITY

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all its component units. Component units are legally separate organizations for which the elected officials or the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. The organization is identified herein as a primary entity.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

Based on the application of the above criteria, no component units are included in the reporting entity.

Tangent Transportation Company (TTC) is part of the State of South Carolina Primary Government. TTC is reported within the Public Railways Division enterprise fund in the State's Comprehensive Annual Financial Report.

Effective July 1, 1993, as part of the Government Restructuring Act of 1993, Code Section 13-1-1310 created the Division of Public Railways (the Division) within the Department of Commerce which is governed by the Secretary of the Department of Commerce.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

(Continued)

The Department of Commerce is a cabinet agency operating under the governor and is subject to state laws and regulations. The Division however is not subject to the State Procurement Code or Appropriation Act. Also, the Division is not subject to State Human Resource Regulations. The Secretary of the Department of Commerce is responsible for oversight of the Division. The Division has powers of a body corporate including,

1. The power to sue or be sued, and make contracts.
2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.
3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.
4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.
5. To issue revenue bonds and other obligations, subject to approval by the State Budget and Control Board, to defray the cost of acquisition of other railroads.

The South Carolina Department of Commerce - Division of Public Railways consists of three separate divisions: the Port Utilities Commission and Port Terminal Railroad (PUC-PTR), the East Cooper and Berkeley Railroad (ECBR), and the Tangent Transportation Company (TTC). The functions of each of the divisions are different and are outlined in the report on the combined financial statements of the South Carolina Department of Commerce - Division of Public Railways which are presented under separate cover. The function of Tangent Transportation Company is as follows:

Tangent Transportation Company (TTC) was formed to acquire and operate the Yemassee to Port Royal railroad. On April 16, 1985, a notice was filed by the Tangent Transportation Company with the Surface Transportation Board for a modified rail certificate of public convenience and necessity under 49 C.F.R. 1150, subpart C, to operate a line of trackage from Yemassee to Port Royal in Beaufort County, South Carolina, called the Port Royal Railroad. This line of railroad had formerly been owned and operated by Seaboard System Railroad, Inc. Also effective January 1, 1999, TTC operates a maintenance of way department which does contractual services for other divisions and also outside parties.

South Carolina State Ports Authority, a political subdivision of the State of South Carolina, purchased the line and negotiated with Tangent Transportation

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

(Continued)

Company, a wholly owned subsidiary of the South Carolina Public Railways Commission, to operate the line. Tangent Transportation Company commenced operation on May 14, 1985.

The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the Tangent Transportation Company and do not include any other funds of the State of South Carolina, or other divisions of the South Carolina Department of Commerce - Division of Public Railways.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

TTC adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The South Carolina Department of Commerce - Division of Public Railways is required by State Law (58-19-110) to maintain separate accounting of its three divisions: the Port Utilities Commission and Port Terminal Railroad, the East Cooper and Berkeley Railroad, and the Tangent Transportation Company. Presented here are the financial statements of the Tangent Transportation Company division of the South Carolina Department of Commerce - Division of Public Railways.

TTC utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounting principles utilized by the Division and Tangent Transportation Company are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. TTC has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989, unless they conflict with GASB pronouncements.

Operating income includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

(Continued)

Fund Accounting

TTC uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been reported by fund type.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." "Tangent" reports activities by the enterprise "fund type" under the proprietary fund category.

Tangent is a proprietary fund which accounts for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Tangent is classified as an enterprise fund type within the proprietary fund classification. Enterprise funds account for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of service.

Property, Plant, and Equipment

Except for track and roadway, fixed assets with a unit acquisition cost in excess of \$5,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Buildings	40 years
Equipment	3 - 4 years

The State Ports Authority owns the majority of track and roadway. Track and roadway when paid for by TTC are capitalized at cost and depreciation is not recognized. Replacements and repairs are expensed in the period that costs are incurred. Betterments to track and roadway are capitalized, if paid for by TTC.

Inventories

Inventories consisting of materials and supplies are stated at the lower of cost or market using the weighted average method.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

(Continued)

Policy for Uncollectible Accounts

At year-end management reviews past due accounts receivable and recognizes bad debt expense for those accounts determined to be uncollectible. This method is not in conformity with generally accepted accounting principles which requires accounts receivable to be reported at net realizable value using an allowance for uncollectible accounts. However based on the Company's collection history, the results from using the direct write-off method are not materially different from the allowance method.

Restricted Net Assets

A reserve for working capital is required under an agreement between the Company and South Carolina Ports Authority when the Ports Authority provided start-up monies for Tangent Transportation Company. The agreement required Tangent Transportation Company to maintain a \$50,000 working capital reserve.

Statement of Cash Flows

For purposes of this statement the Company considers deposits with the State of South Carolina cash management pool to be cash equivalents because they are readily convertible to cash with insignificant risk of loss in value.

Cash and Cash Equivalents

The amounts shown in the financial statements as "*cash and cash equivalents*" represent cash on deposit with the State Treasurer and cash invested in various investments by the State Treasurer as part of the State's internal cash management pool.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents included investments in short-term, highly liquid securities having an original maturity of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

(Continued)

the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencies' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. TTC only has special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency's percentage of ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 3.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS

All deposits of the Company are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2002, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

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NOTES TO FINANCIAL STATEMENTS
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(Continued)

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment is stated at original cost and is depreciated on a straight-line method. Property, plant and equipment is summarized as follows:

CAPITAL ASSETS

	Balance 12/31/01	Transfer	Additions	Deletions	Balance 12/31/02
Land	\$ 102,293	\$ (102,293)	\$ -	\$ -	\$ -
Land improvements	14,744	-	-	-	14,744
Buildings	170,669	-	-	-	170,669
Machinery and equipment	117,740	-	-	-	117,740
Non-depreciable road	545,228	-	-	-	545,228
Total	<u>\$ 950,674</u>	<u>\$ (102,293)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 848,381</u>

ACCUMULATED DEPRECIATION

	Balance 12/31/01	Additions	Deletions	Balance 12/31/02
Buildings	\$ 21,118	\$ 4,213	\$ -	\$ 25,331
Machinery and equipment	84,651	540	-	85,191
Total	<u>\$ 105,769</u>	<u>\$ 4,753</u>	<u>\$ -</u>	<u>\$ 110,522</u>

Depreciation expense for the period ended December 31, 2002 was \$4,753. Title to any building or track will remain with the Ports Authority if the Company ceases operations of the railroad. The Ports Authority paid one half (\$170,669) of the cost of the engine house. Amounts paid by the Ports Authority have not been recorded on the books of the Company. In 1995 the Company purchased land to be used for storage purposes. The title to the land was transferred to PUC-PTR on August 9, 2002. This is shown as a transfer to PUC-PTR on the statement of revenue, expenses and changes in net assets.

NOTE 5 - ACCRUED ANNUAL LEAVE

Non-union employees are entitled to accrue and carry forward at calendar year end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. Employees do not accrue or carry forward holiday leave, compensatory time or overtime. TTC does not have union employees.

TTC calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects

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(Continued)

to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded as a current liability. The net change in the liability is recorded in the current year in the applicable operating departments.

The following is a summary of changes in compensated absences for the year ended December 31, 2002.

	<u>Jan 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Dec 31, 2002</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 42,851	\$ 4,458	\$ 6,528	\$ 40,781	\$ 40,781

NOTE 6 - OTHER INCOME, NET

Amounts in other income consist primarily of miscellaneous licenses and permits.

NOTE 7 - OPERATING LEASES

The total rent expense for the year ended December 31, 2002, for operating leases was \$126,000. This relates to a month-to-month lease arrangement with Tangent Transportation Company's sister division, PUC-PTR, for one locomotive on which the monthly rental is \$2,000. Also PUC-PTR leased maintenance of way equipment to TTC for an annual amount of \$102,000. Total rent for locomotives was \$24,000. The \$102,000 rent paid for maintenance of way is included in other maintenance of the way expenses.

NOTE 8 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Division are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless

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(Continued)

exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0% of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7%, which included a 3.15% surcharge to fund retiree health and dental insurance coverage. The rate for the first six months of 2002 (effective July 1, 2001) was 10.4%, which included a 2.85% surcharge. Tangent's actual contributions to the SCRS for the fiscal year ended December 31, 2002 were \$21,659, and equaled the required contributions of 7.55% (excluding the surcharge) for the year. Employer contributions for 2001 were \$22,395 and for 2000 were \$30,749. Also, the Division paid employer group-life insurance contributions of \$430 in the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Tangent Transportation Company division for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom contributions are made.

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(Continued)

Article X, Section 16, of the South Carolina Constitution requires that all State operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Division's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Division's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Division recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

The General Assembly amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provision effective January 1, 2001. The amendment enacted the Teacher and Employee Retention Incentive Program, reducing from thirty to twenty-eight years of credible service required to retire at any age without penalty and made other changes to the South Carolina Retirement System.

Tangent Transportation Company contributed \$66,528 this year to the U.S. Railroad Retirement System, which covers all employees. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2002, wages up to \$84,900 were funded at 6.2% by TTC to meet Tier 1 funding requirements and all wages were funded at 1.45% by TTC to meet Tier I Medicare Funding requirements. TTC funded wages up to \$59,700 at 16.1% to meet Tier II funding requirements. Employees matched the Division's Tier 1 contribution, but paid only 4.9% versus TTC's 16.1% Tier II rate on wages up to \$59,700 for the maximum Tier II employee liability of \$63,000.

The U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts, administers this plan.

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Data concerning the actuarial status of the U.S. Railroad Retirement System as related to TTC is not available. TTC is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time employees of Tangent Transportation Company are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through TTC's applicable revenue sources for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable division revenue sources of the Tangent Transportation Company for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 24,000 State retirees meet these eligibility requirements.

The Tangent Transportation Company recorded employer contribution expenses for these insurance benefits for active employees in the amount of \$39,424 for the year ended December 31, 2002. As discussed above, the Tangent Transportation Company paid \$8,625 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the Tangent Transportation Company retirees is not available. By State law, the Tangent Transportation Company has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

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Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Division have elected to participate. The multiple-employer plans, created under Internal Revenue Service code sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan. The State has no liability for losses under the plans.

NOTE 9 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

The Tangent Transportation Company division of the Division has a contractual agreement to receive from the South Carolina State Ports Authority a management fee when monthly freight charges revenue is insufficient to cover monthly expenses. The Company in 2002 and 2003 billed the Ports Authority for monthly deficits incurred by the rail freight division of the Company. In June 2003 the Ports Authority agreed to reimburse the Company for monthly deficits incurred from 2001 to April 2003 in the amount of \$230,000 of which \$146,000 was allocated to periods prior to January 1, 2003. The \$146,000 is shown as other income and an accounts receivable from the Ports Authority. No reimbursement method or amounts for periods after April 30, 2003 have been agreed to at this time.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement plan administration from various divisions of the State Budget and Control Board. The Tangent Transportation Company had financial transactions with various State agencies during the year. Payments made in 2002 to the State Budget and Control Board were primarily for insurance coverage. The Company provided no services free of charge to other State agencies during the year.

During the year ended December 31, 2002, Tangent Transportation Company incurred costs for goods and services received from PUC-PTR as outlined by the following.

Management fee	\$ 90,000
Job overhead fee	13,612
Equipment rental	<u>126,000</u>
Total	<u>\$ 229,612</u>

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PUC-PTR charges Tangent Transportation Company a \$7,500 monthly management fee for administrative services at the Division office by PUC-PTR on behalf of Tangent. The total management fee incurred by Tangent Transportation Company for the year ended December 31, 2002 was \$90,000, which was charged to general expenses as a management fee. Included in Tangent's accounts payable to PUC-PTR is \$90,000 for the annual management fee and \$6,384 for other services. .

In 2002, Tangent invoiced PUC-PTR and ECBR for services performed by the maintenance of way department. These amounts are included in contractual services - other divisions. The amount invoiced PUC-PTR was \$582,937 and ECBR was invoiced \$45,840. Included in accounts receivable from other divisions is \$13,720 from PUC-PTR and \$12,000 from ECBR for these services.

The South Carolina Ports Authority was charged \$35,430 for work done by Tangent's maintenance of way department. This amount is shown under revenues as contractual services - outside parties.

In 1995 the Company purchased land, at a cost of \$102,293. The title to the land was transferred to PUC-PTR on August 9, 2002. This is shown as a transfer to PUC-PTR on the statement of revenue, expenses and changes in net assets.

NOTE 10 - RISK MANAGEMENT

The Tangent Transportation Company is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Company. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Company pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered premium losses sustained during the policy period in accord with the insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
2. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

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Employees elect health coverage through either a health maintenance organization or through the states self-insured plan. All of the other coverages listed above are through the applicable state self-insured plan except dependent and optional life premiums, which are remitted to commercial carriers.

The Company and other entities pay premiums to the States Insurance Reserve Fund (IRF) which issues policies, accumulate assets to cover the risks of loss and pays claims incurred for covered losses related to the following Division assets, activities, and/or events.

1. Real property, its contents and other equipment - Coverage per loss for real property is based on current valuation with a \$250 deductible. Eighty percent of each loss is covered by the IRF. Equipment losses are subject to a \$500, or two percent deductible, whichever is less.
2. Motor vehicles - Coverage is up to \$1,000,000 per loss with a \$200 deductible for comprehensive and \$500 for collision.
3. Torts

The IRF is a self insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability. The IRF's rates are determined actuarially.

State agencies are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The Division purchases insurance, which covers all divisions, through private carriers for liability and property loss on road and locomotive assets, and employee fidelity bond insurance coverage for all employees to cover losses of up to \$100,000 arising from theft or misappropriations. Management believes based on exposure and likelihood of loss that this coverage is sufficient.

The Division has purchased insurance, which covers all divisions, from a private carrier for liability under the Federal Employers Liability Act (FELA), which is similar to workmans compensation insurance and covers all employees. The Division has elected to retain the risk of loss on this coverage for up to the first \$25,000 of costs per claim. Management has elected to retain this amount of risk because it feels that it is more economical than paying additional premiums for increased coverage. In the current year, no expenses were incurred on claims under the policy. Also a tax is paid to the U.S. Railroad Retirement System to cover all the Company employees for unemployment benefits.

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The Company has recorded insurance premium expenses in the applicable operating department corresponding to the employees for whom contributions are made or in insurance expense under administrative costs.

The Company's management believes risk of loss from business interruption is a remote likelihood and does not maintain insurance for this risk.

The Company did not incur any significant losses in 2002 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. TTC reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.